

ON THE CONVERSION OF BLUE CROSS BLUE SHIELD OF MICHIGAN

David Wamsley

28517 Kathryn

Garden City, MI. 48135

Former member of Moses Healthcare Task Force and Jobs With Justice Healthcare Committee.

I would like to start out by saying Michigan Blue Cross is a great healthcare organization with responsibilities to all the people of the state. It has the best coverage and choice of doctors.

There has been much talk of the organization's responsibility to seniors, but the organization has much more responsibility to all the people of Michigan.

Michigan Blue Cross has been subsidized by all Michigan citizens since 1939, 73 years. In addition to this, the organization is benefiting from tax breaks from state and local taxes and fees in individual deals and by operating in tax free zones. Almost all school district, city, county and state worker's health policies, including the retirement coverage, from day one have been and are being paid for by the people of Michigan, without a peep about the unreasonable and unreal increases in cost. This would indicate a huge majority ownership stake in the organization.

Now the management and board of Michigan Blue Cross would like us to give them ownership and control of the Blues through a conversion for the measly sum of \$1.5 Billion to a foundation, and want to make payments on that over 18 years without interest. A Mutual owned supposedly by policy holders. So who would be these policy

holders? According to the definition of policy holder, under a group purchase plan, the employer, labor union, or trustee to whom a group contract is issued is the policy holder. In a plan providing for individual or family enrollment, the person to whom the contract is issued. So the new owners of the Blues would be the MEA, MESSA, UAW and the school districts, including out of state members, or would it be the people who are actually paying for the majority of policies and have paid for the success of the Blues since the beginning, the people of Michigan? I can't believe that the Michigan Legislature is going along with giving away our ownership of a state asset to the unions, retirement funds, and school districts for nothing. After looking at the Michigan Blue Cross board, this is definitely a silent hostile takeover by insiders.

The Accident Fund (a for-profit owned by the Blues) is nothing more than a shell, (a holding company), an umbrella over the subsidiaries which together must be worth a few billion dollars, but all profits and value are held downstream. The Blues is a \$22 Billion per year organization with way more than \$3 billion in assets and value. Blue Care Network also does a few Billion dollars per year and has great value. A conversion sets the stage for Michigan Blue Cross to do the same.

The idea that you can put in protections against management and board self-enrichment and protecting our assets is nice, but those are already there and not working now.

The protecting of our asset would be not to allow a conversion of our organization and is against the law now. The self-enrichment defenses are even now being violated, in the past few years the board and management have been raising their compensation at levels that should cause outrage in times like this, even in years when

the Blues does not make money. One example would be CEO Daniel Loepp, who started as CEO around a decade ago at a salary of \$500,000.00 per year, which is a very good wage. Last year his total compensation, including at BCN was around \$3.5 Million. That is a 700% raise! Since 2008, the year of the economic collapse, he has had about a \$1 Million raise. Instead of a decent wage, the people of Michigan are now insuring for the financial security for the next 20 generations of his family. I guess the board and management have forgotten the goal is not to make each other rich but that they work for a community benefit health organization whose duty is to provide health care to the people of Michigan at the lowest cost possible. They are not even doing a very good job of that! The management and board are already breaking the law by being involved in this and not protecting the status of the Blues. The Michigan Attorney General office should be looking into this and doing something.

It is entirely predictable, and there is even a track record available, that a conversion will not only raise the cost of healthcare for us, but also make a few insiders a lot of cash. This whole exercise is only about money and control, and everyone knows it.

The only way to insure that the Blues will remain in Michigan, including all employees, is to leave it as a non-profit and change what needs to be changed to comply with the ACA.

It would appear that the Governor of Michigan and the Michigan Senate either does not understand the implications of this conversion, or are not doing their duty of protecting the citizens of Michigan. We are now relying on the Michigan House and Attorney General to protect us. Please do the right thing.

David Wamsley